

# The Effect of Debt on Community College Students



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# Effect of Financial Aid Barriers on Access

- Annually 400,000+ students fully prepared to attend a four-year college are unable to do so.
- Annually 170,000+ of these students *will not* attend college at all.

Source: Empty Promises: The Myth of College Access In America,  
A Report of the Advisory Committee on Student Financial Assistance,  
Washington, D.C., June 2002.

# Effect of Financial Aid Barriers on Access

10 Year Projection:

- 4.4+ million high school graduates *will not* attend four-year colleges.
- 2 million+ *will not* attend college at all.
- For the State of Iowa and for the nation, this equates to the loss of human capital that will exact a serious economic and social toll.

Source: Empty Promises: The Myth of College Access In America,  
A Report of the Advisory Committee on Student Financial Assistance,  
Washington, D.C. (June 2002).

# Access Denied



- *Access Denied*, a major national study, stressed that excessive levels of unmet need exert a powerfully negative effect on the college-going behavior of high school graduates — even those who are academically prepared.

Source: Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity  
A Report of the Advisory Committee on Student Financial Assistance, Washington, D.C. (2001).

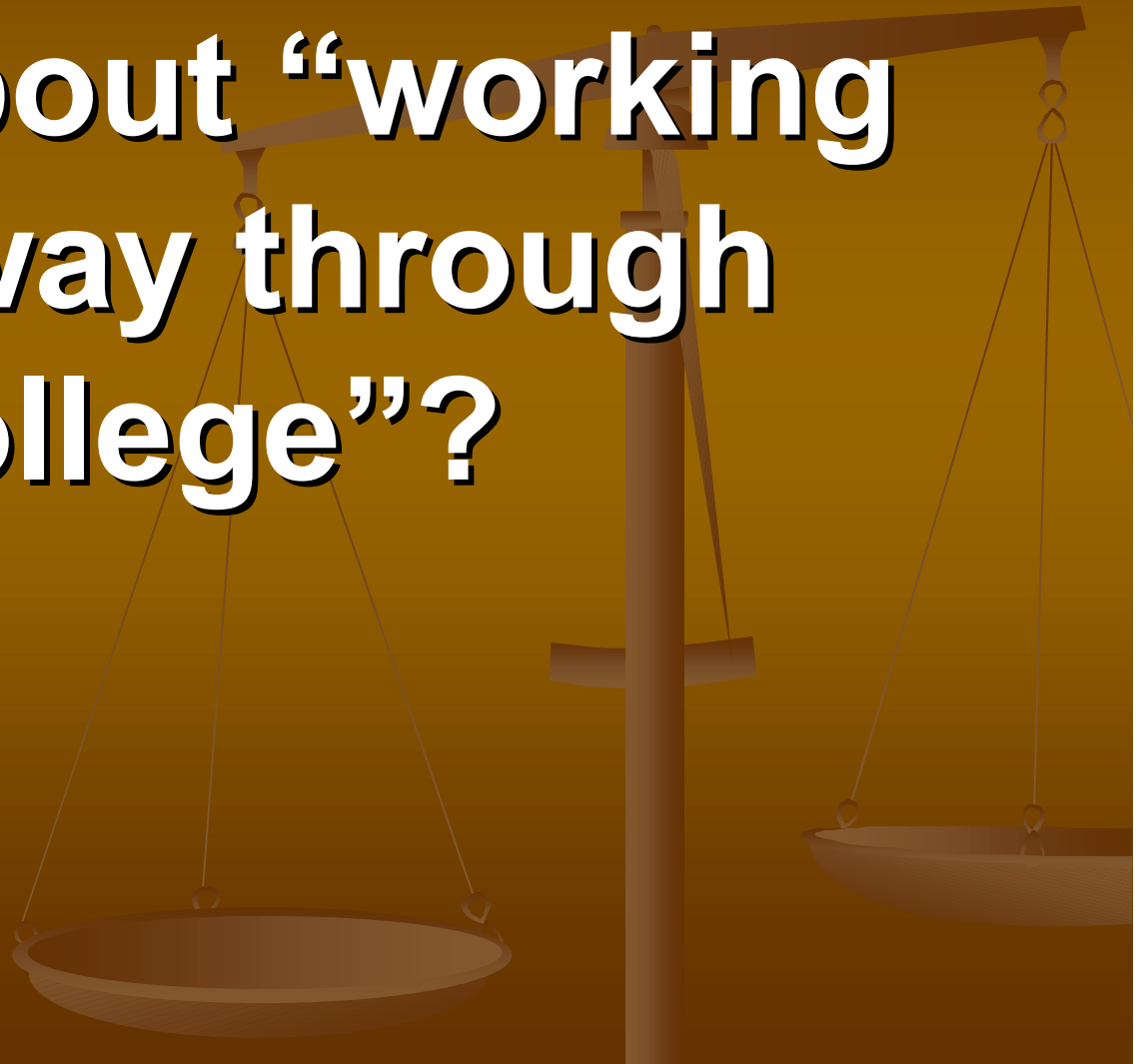
# Unmet Need

- High levels of unmet need have serious impacts:

**“Unmet need causes students to deviate from full-time, on-campus attendance – the behavior most conducive to academic success.”**

Source: Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity  
A Report of the Advisory Committee on Student Financial Assistance, Washington, D.C. (2001).

**What about “working  
your way through  
college”?**



# Work Hours of DMAACC Students

- The majority are already working.

## Hours Per Week

6 to 10 hours

11 to 20 hours

21 to 30 hours

More than 30 hours

## Percentage of Students

5.68%

16.81%

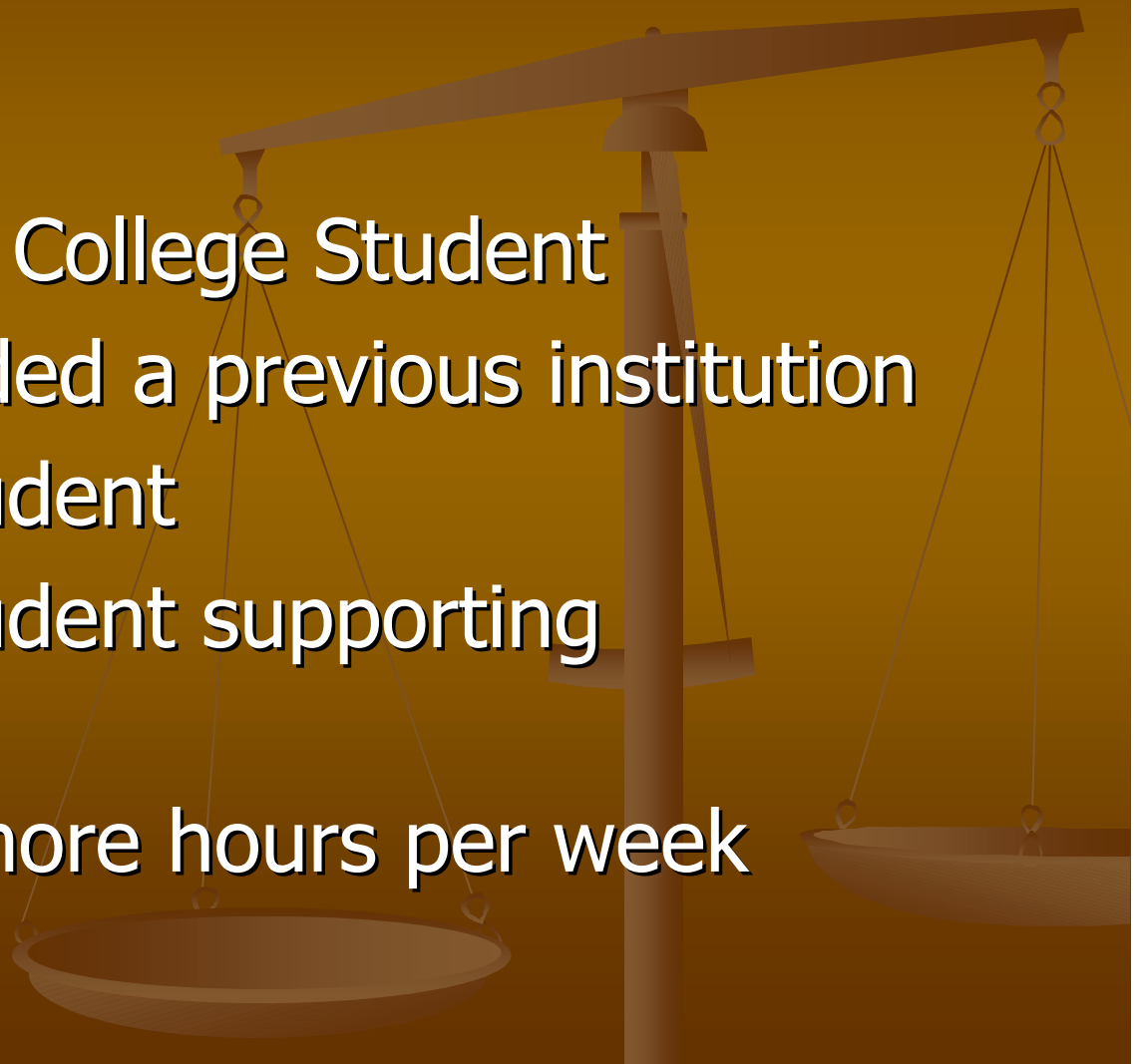
18.91%

29.42%

Source: DMAACC 2003 Student Satisfaction Survey

# Profile of Iowa Community College Students

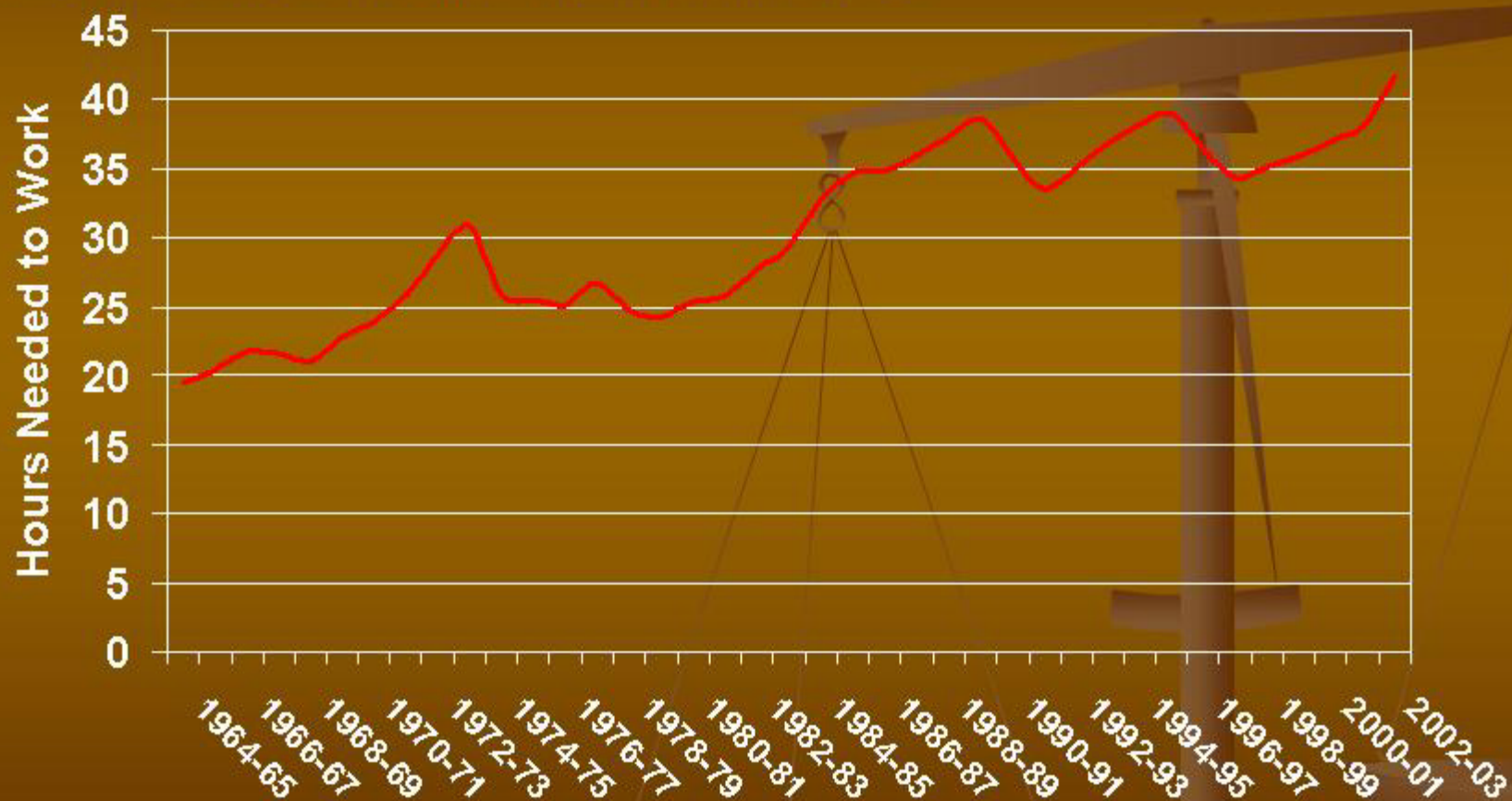
- Mid- to late-20s
- First Generation College Student
- May have attended a previous institution
- Independent student
- Independent student supporting dependents
- Working 20 or more hours per week





# "I worked my way through college. You should too!"

Estimates for a Two-Year Public Institution in the US



Data Source: Tom Mortenson, Postsecondary Education Opportunity,  
November 2002. [http://www.postsecondary.org/pr/pr\\_03.asp](http://www.postsecondary.org/pr/pr_03.asp)

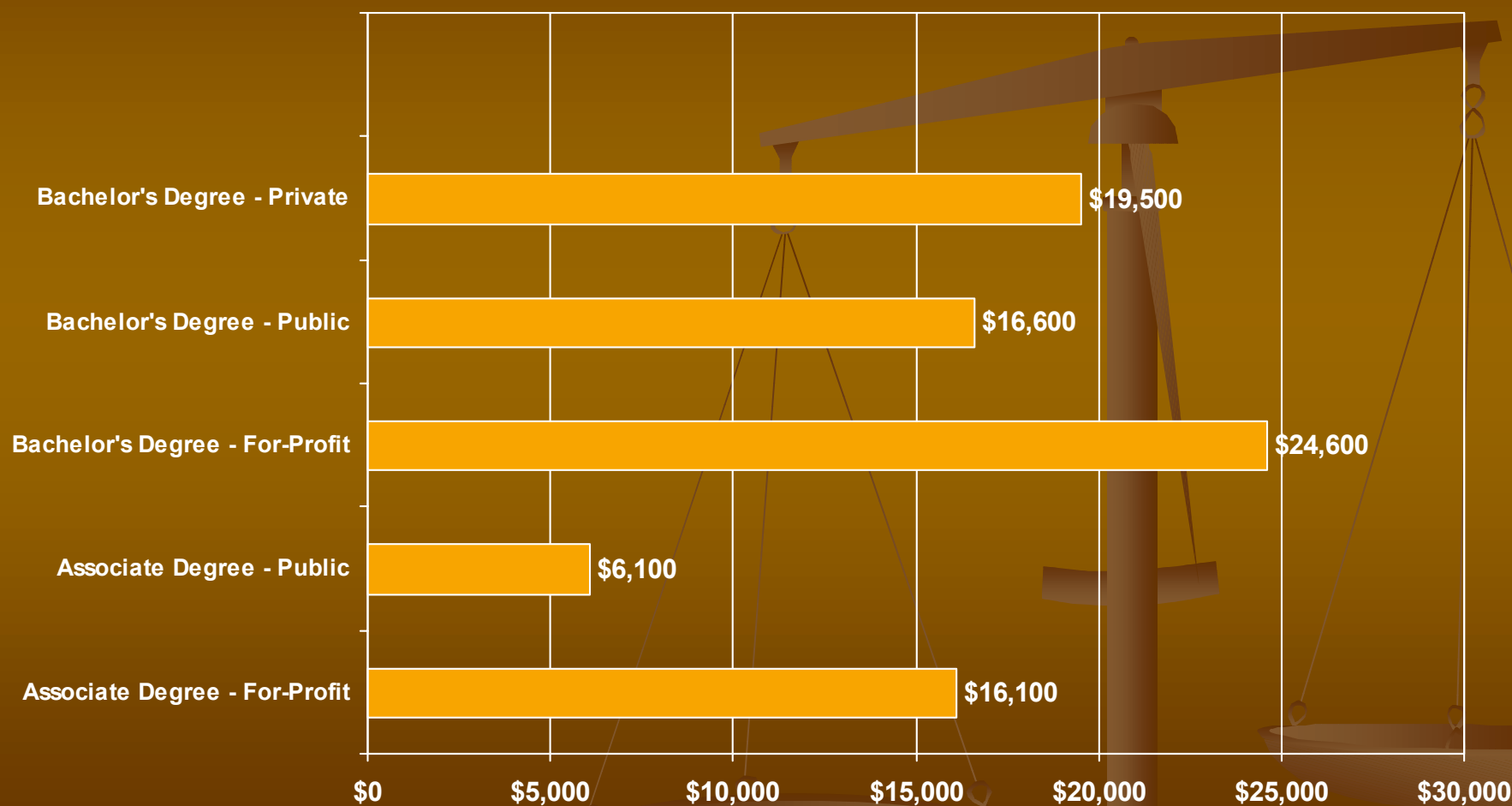
# Student Indebtedness Sharply Increases

- Nationally, the median amount borrowed by associate degree recipients rose by more than 70% to \$5,879 between 1993-2004.
- In 2000-01 38.9% of Iowa Community College students were borrowing federally insured student loans. For the 2004-05 academic year that figure rose to 50.4%.

The average amount of federally insured loans borrowed by Iowa Community College students completing a two-year degree is \$8,157. The average Partnership/Alternative loan is \$4,627.

Sources: Federal Student Loan Debt, 1993-2004,  
American Council on Education.  
Iowa College Student Aid Commission (2007).

# National Student Debt Levels By Type of Institution, 2003-04



Source: Trends in Student Aid. College Board. 2006.

# Stafford Student Loan Eligibility

## Type of Student

### ■ Dependent Student

- Freshman
- Sophomore

### ■ Independent

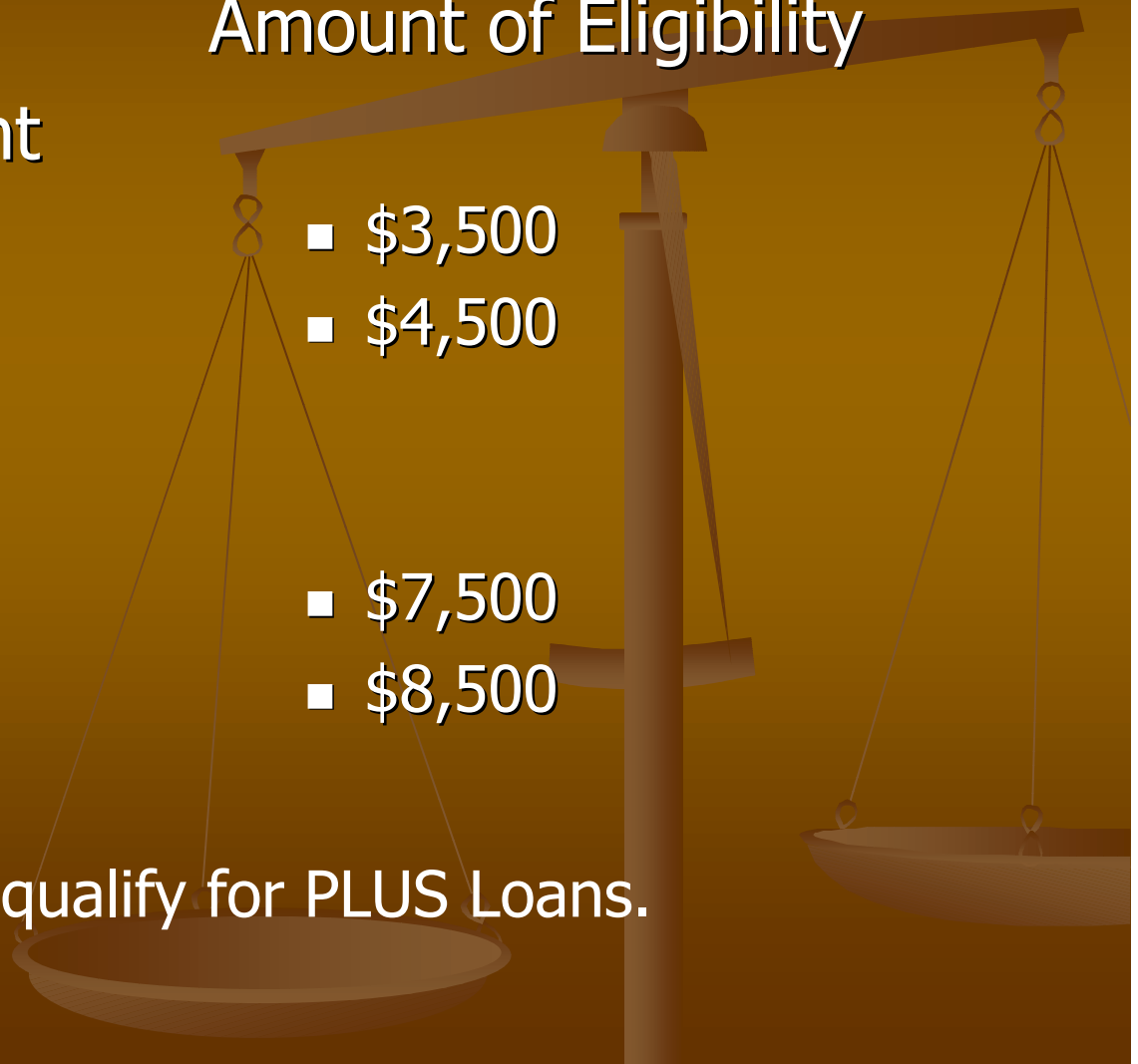
- Freshman
- Sophomore

## Amount of Eligibility

- \$3,500
- \$4,500

- \$7,500
- \$8,500

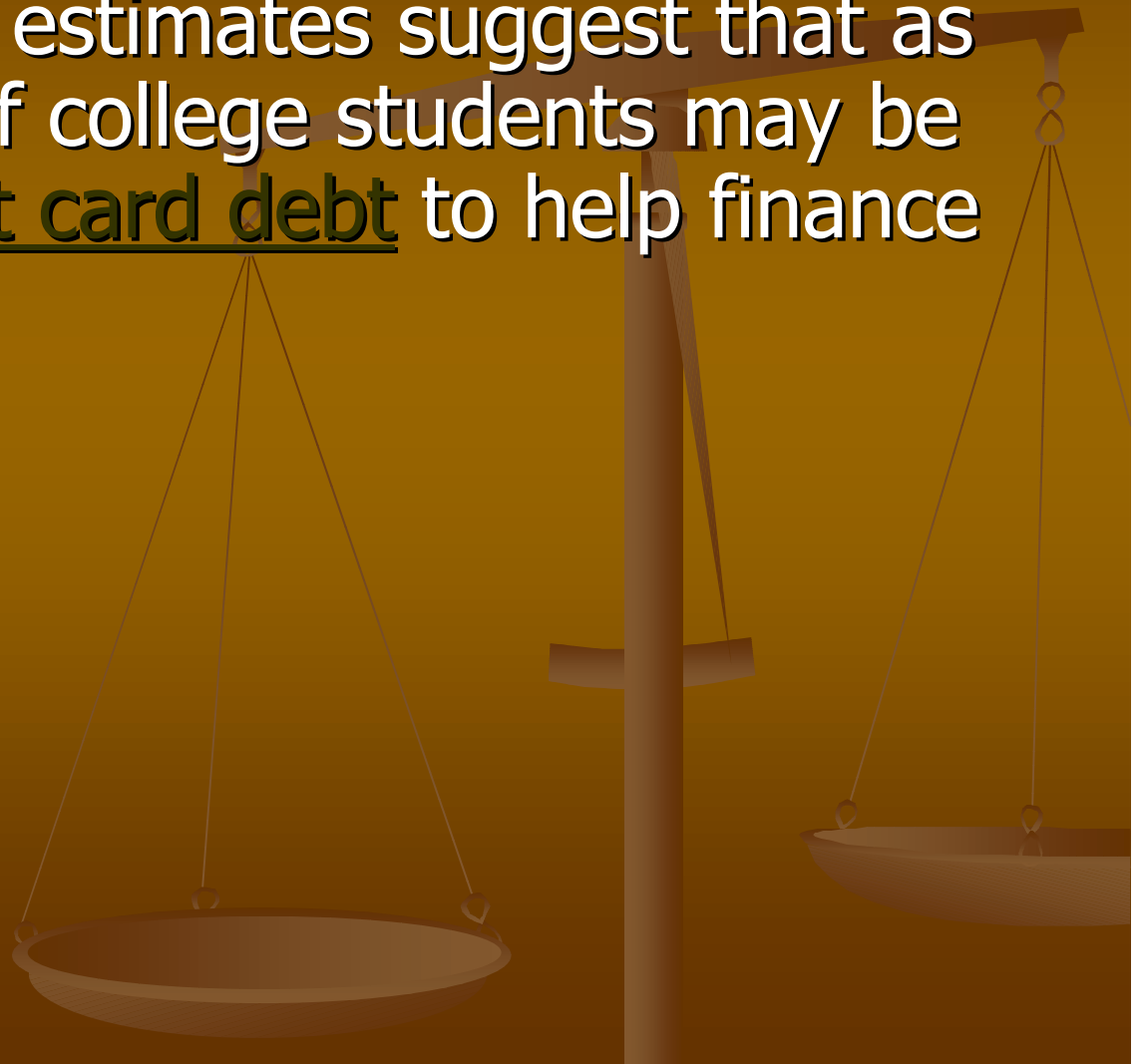
*Only* 36% of parents qualify for PLUS Loans.



# Student Debt

- Recent national estimates suggest that as many as 25% of college students may be relying on credit card debt to help finance their education.
  - Tuition
  - Fees
  - Books

Source: Nellie Mae (2005)



# Credit Card Use & Debt

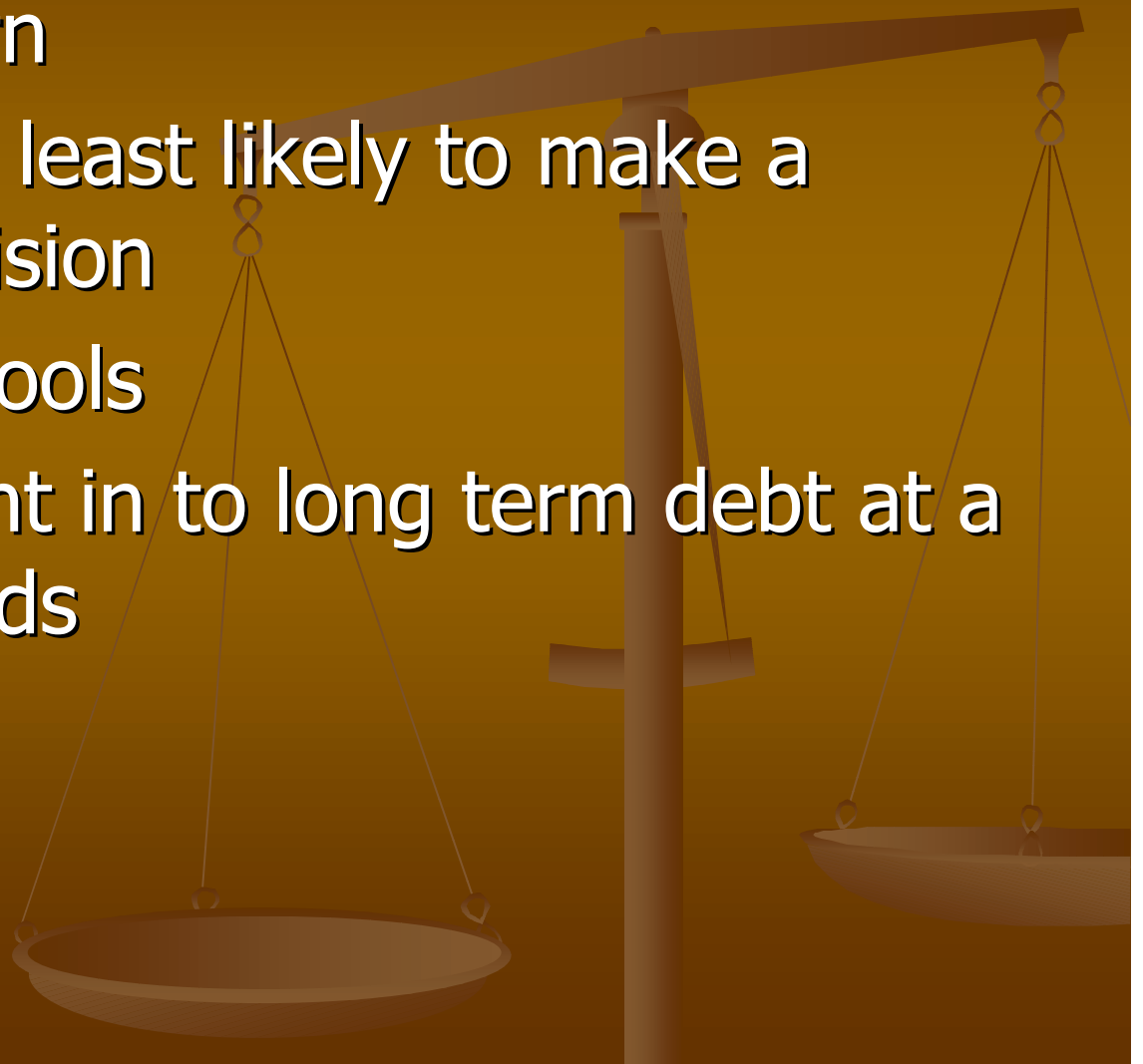
- Number of credit cards: 1 to 4
- Average age: 19
- Average debt: \$8,028
- Average monthly solicitation: 2 to 3

Most used card: Store specific cards

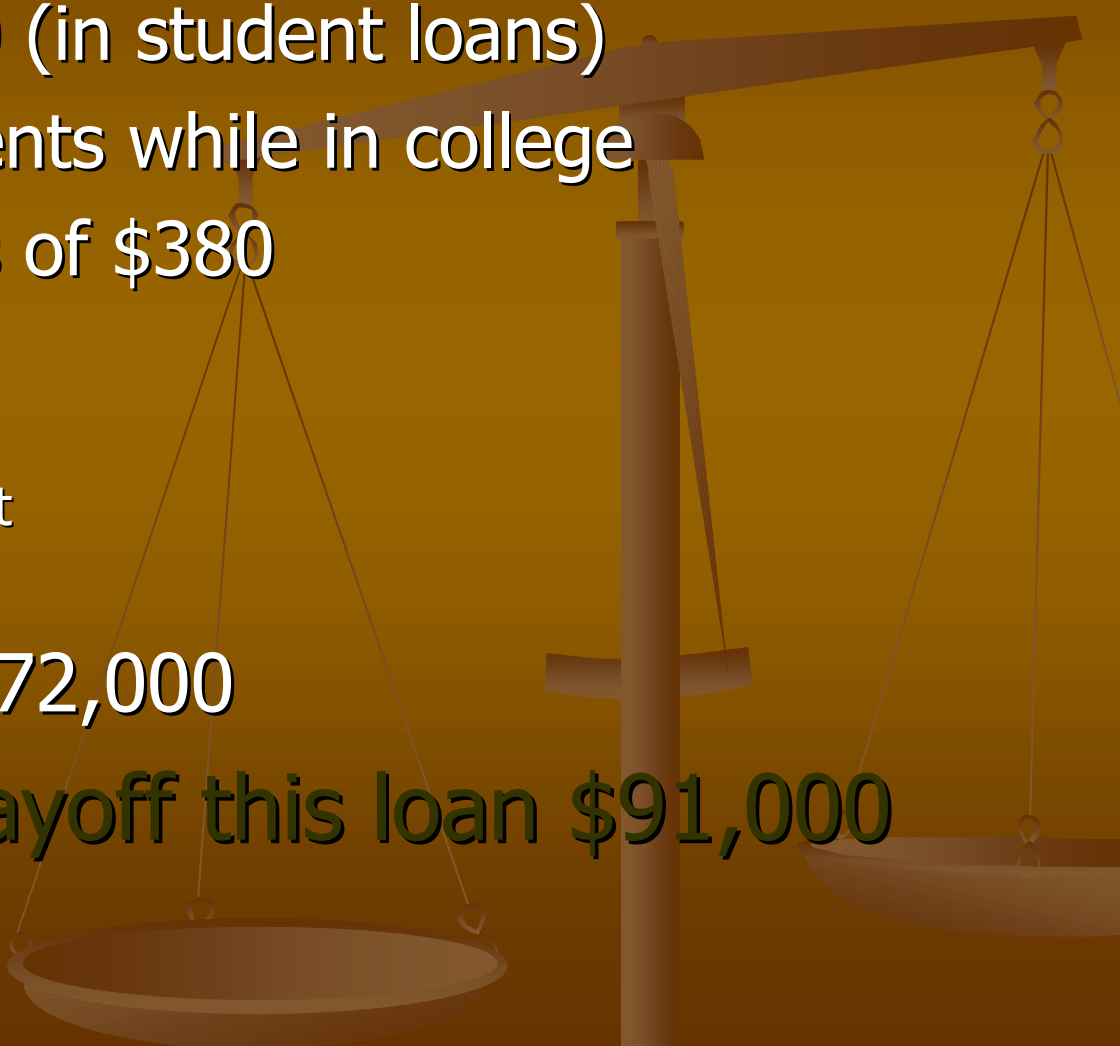
Source: DMACC Debt Counseling Service (2007)

# Direct-to-Consumer Loans

- Growing Concern
- Appeal to those least likely to make a good credit decision
- By-pass the schools
- Hook the student in to long term debt at a high cost of funds



# Example: Franklin

- Borrowed \$19,000 (in student loans)
  - Generous deferments while in college
  - Monthly payments of \$380
    - Here's the catch
      - Variable interest
      - Capitalized interest
      - 20 years to repay
    - Cost of Credit - \$72,000
  - **Total cost to payoff this loan \$91,000**
- 



# ***“The most indebted generation of young Americans ever”***

- Students graduating from colleges and universities during the last 25 years represent the first generation of Americans to finance a significant portion of their higher education through interest-bearing debt.

Indeed, *“they may be the most indebted generation of young Americans ever,”* with the average indebted adult, ages 25-34, spending nearly 25 percent of income on debt service of all types.<sup>8</sup>

- We’ve never done this to a generation of our children!

Source: Why Young Americans are Drowning in Debt. Christian Science Monitor (8/15/2005).

# Much is at Stake



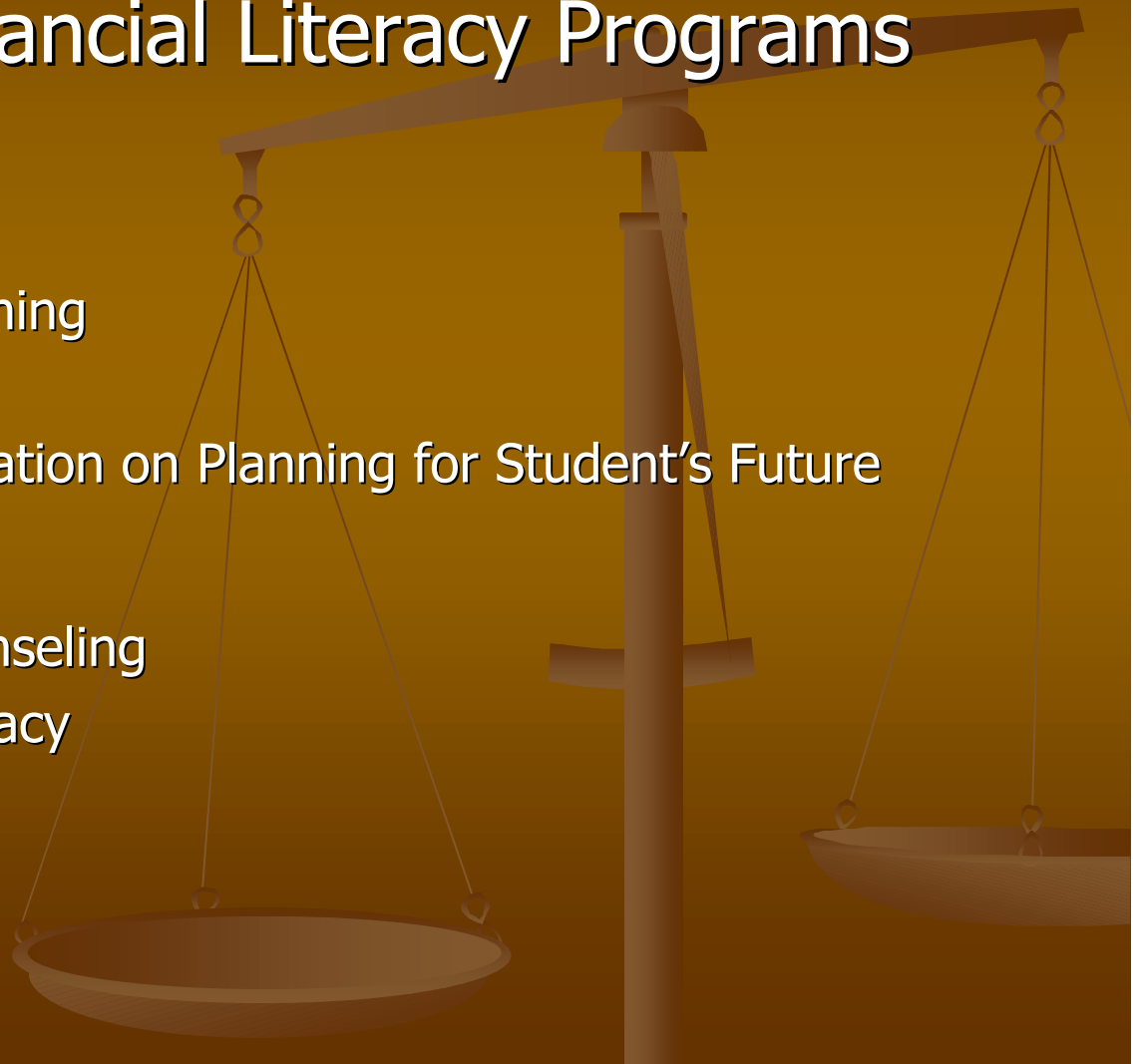
77 million baby boomers are staging to retire.

We can't afford to lose a generation of students due to high debt and inability to access higher education.

Especially in a global economy.

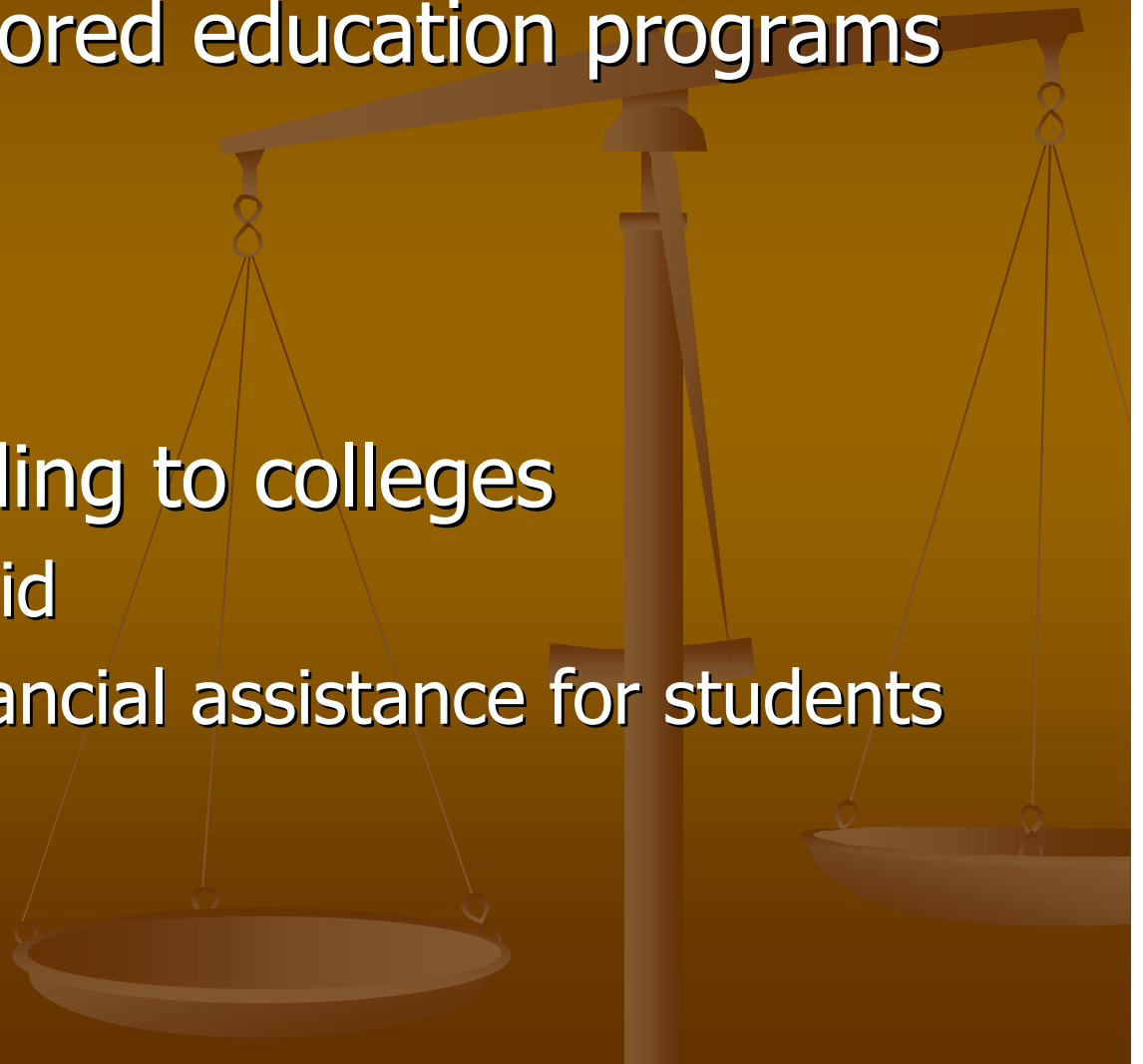
# Recommendations

- Savings and Financial Literacy Programs
  - K through 12
    - Savings
    - Financial Planning
    - Life Skills
    - Parental Education on Planning for Student's Future
  - College
    - Pre-Loan Counseling
    - Financial Literacy



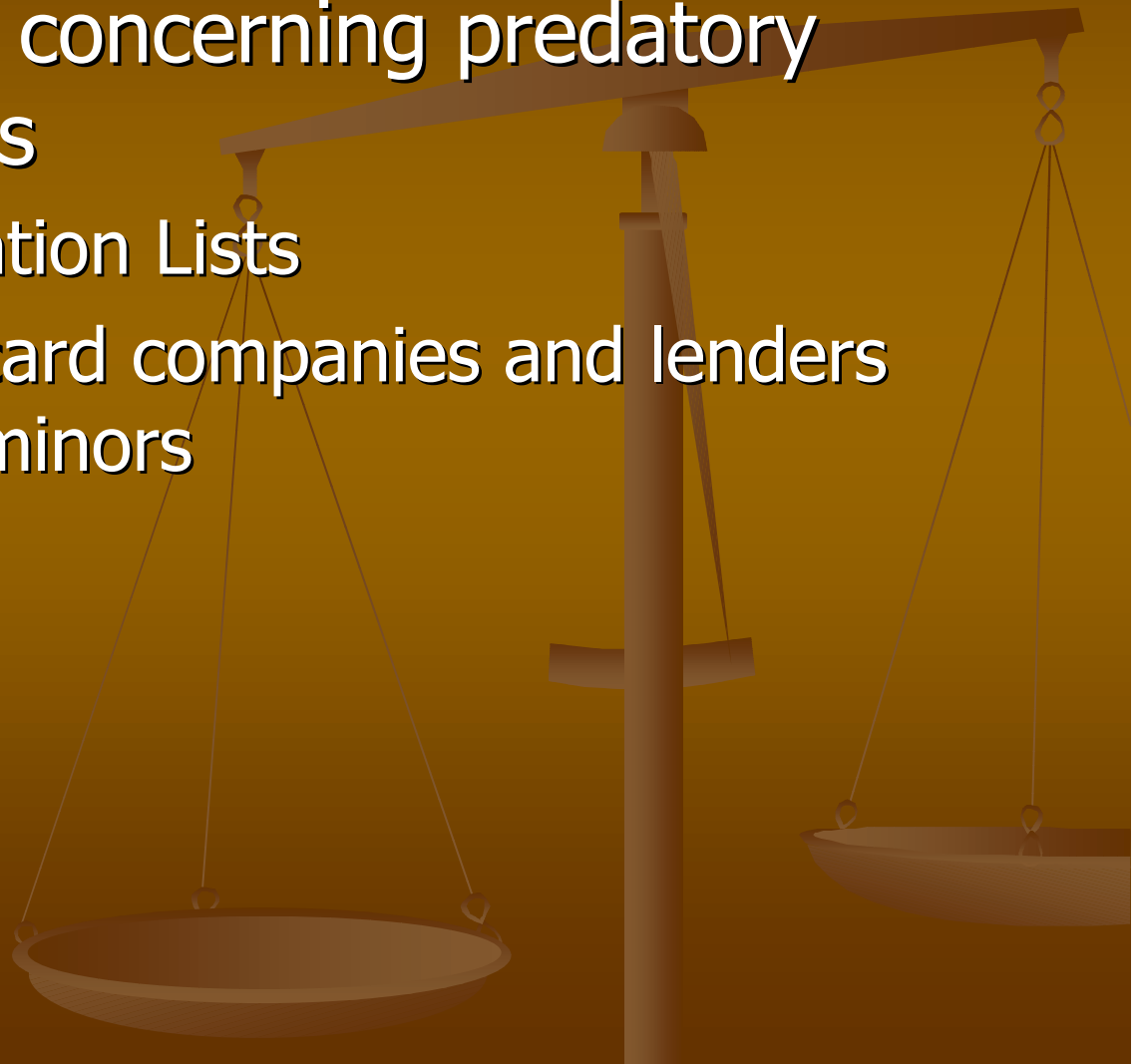
# Recommendations (cont.)

- Employer sponsored education programs
  - 2 + work + 2
  - 4 + work + 4
- More grant funding to colleges
  - General grant aid
  - Need based financial assistance for students



# Recommendations (cont.)

- New Legislation concerning predatory lending practices
  - No Card Solicitation Lists
  - Prevent credit card companies and lenders from soliciting minors



Questions?



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